

Message Text

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14-11

ACTION NEA-09

INFO OCT-01 EUR-12 EA-10 ISO-00 EB-07 OES-05 AID-05

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 IO-10 AF-06

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R 191230Z MAR 75

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC 0632

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, IMF, US, SA

SUBJECT: SAMA PRESS COMMUNIQUE

REF: JIDDA 1903

BEGIN SUMMARY: SAMA PRESS COMMUNIQUE SOMEWHAT CLARIFIES REASONING BEHIND LINK OF RIYAL TO SDR WITHOUT MENTIONING PETROLEUM. END SUMMARY

1. THE SAUDI ARABIAN MONETARY AGENCY ISSUED A COMMUNIQUE MARCH 17 ELABORATING ON THE DECISION TO LINK THE SAUDI RIYAL TO THE SPECIAL DRAWING RIGHT. TEXT FOLLOWS:

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THE PUBLIC IS AWARE THAT THE PAR VALUE OF THE RIYAL IS DEFINED IN TERMS OF GOLD AND IS EQUAL TO 0.207510 GRAM OF FINE GOLD PER RIYAL. HOWEVER, BECAUSE OUR OIL INCOME IS IN DOLLARS AND BECAUSE THE DOLLAR IS THE PRINCIPAL INTERVENTION AS WELL AS RESERVE CURRENCY IN THE WORLD, SAUDI ARABIA HAD, LIKE MANY OTHER COUNTRIES, MAINTAINED A STABLE RELATIONSHIP OF THE RIYAL WITH THE DOLLAR FOR OPERATIONAL CONVENIENCE. CONSEQUENT TO THE RECENT DEPRECIATION IN THE EXCHANGE RATE OF THE DOLLAR WITH RESPECT TO MOST MAJOR CURRENCIES AND THE PREVAILING UNCERTAINTIES IN THE INTERNATIONAL FOREIGN EXCHANGE MARKETS, HIS MAJESTY'S GOVERNMENT HAS ONCE AGAIN STUDIED THE QUESTION OF THE EXCHANGE RATE OF THE RIYAL AND HAS DECIDED THAT IT IS NO LONGER IN THE LARGER INTEREST OF THE KINGDOM TO MAINTAIN A STABLE RELATIONSHIP OF THE RIYAL WITH ANY SINGLE CURRENCY WHETHER IT IS THE DOLLAR OR SOME OTHER CURRENCY BECAUSE IN THAT CASE THE RIYAL BECOMES LINKED TO THE FATE OF THAT CURRENCY AND SUFFERS FROM EXTREME UPS AND DOWNS WHICH ARE NOT IN THE INTEREST OF THE KINGDOM.

IN VIEW OF THE NATIONAL POLICY OBJECTIVES OF ACCELERATED ECONOMIC GROWTH AND BUILDING A DIVERSIFIED PRODUCTIVE BASE, IT HAS BEEN THE CONSIDERED POLICY OF THE GOVERNMENT TO HOLD THE VALUE OF THE RIYAL STABLE. HIS MAJESTY'S GOVERNMENT BELIEVES THAT THIS OBJECTIVE OF HAVING A STABLE RIYAL COULD BE BEST ATTAINED BY MAINTAINING UNCHANGED THE PAR VALUE OF THE RIYAL IN TERMS OF GOLD AND THEN BY LINKING THE RIYAL NOT TO ANY SINGLE CURRENCY BUT TO A BASKET OF CURRENCIES. STUDIES MADE BY THE MONETARY AGENCY HAVE REVEALED THAT THE BEST BASKET OF CURRENCIES TO LINK THE RIYAL TO WOULD BE THE SDR BASKET.

FOR THE GENERAL BENEFIT OF THE PUBLIC THE MONETARY AGENCY WISHES TO SEIZE THIS OPPORTUNITY
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TO EXPLAIN THAT THE CONCEPT OF THE SDR HAS BEEN DEVELOPED BY THE INTERNATIONAL MONETARY FUND. THE SDR CONSISTS OF A BASKET OF 16 CURRENCIES EACH HAVING AN AVERAGE SHARE OF AT LEAST ONE PER CENT IN THE WORLD EXPORT OF GOODS AND SERVICES. THE WEIGHT ASSIGNED TO EACH CURRENCY IN THE BASKET IS BROADLY IN PROPORTION TO THE COUNTRY'S EXPORTS MODIFIED SOMEWHAT IN THE LIGHT OF THE CURRENCY'S

WEIGHT IN THE WORLD ECONOMY. THE FIVE MAJOR CURRENCIES, THE U.S. DOLLAR, THE GERMAN MARK, THE POUND STERLING, THE FRENCH FRANC AND THE JAPANESE YEN CARRY A TOTAL WEIGHT OF ABOUT 70 PERCENT IN THE SDR BASKET.

THE LINKING OF THE SAUDI ARABIAN RIYAL TO THE SDR WOULD HAVE THE ADVANTAGE THAT THE RATE OF EXCHANGE OF THE RIYAL IN THIS CASE WOULD NOT MOVE TO EXTREME POSITIONS WITH THE MOVEMENT IN THE RATE OF ANY SINGLE CURRENCY IN THE INTERNATIONAL FOREIGN EXCHANGE MARKETS BUT WOULD STAY SOMEWHERE IN THE MIDDLE, THUS IMPARTING STABILITY TO THE RATE OF THE RIYAL WITH RESPECT TO MAJOR CURRENCIES. THE EFFECT OF THE FLUCTUATION OF ANY SINGLE CURRENCY ON THE RIYAL WOULD DEPEND ON ITS WEIGHT IN THE SDR BASKET. DESPITE THIS IF THERE ARE ANY UNDESIRABLE MOVEMENTS IN THE SDR AND IT IS CONSIDERED PREFERABLE NOT TO ALLOW THE RATE OF THE RIYAL TO BE INFLUENCED BY SUCH MOVEMENTS, IT WOULD BE POSSIBLE TO EVEN THEM OUT BY CAREFULLY USING THE MARGIN OF 2.25 PER CENT ON EITHER SIDE OF THE SDR/RIYAL PARITY AS IS ALLOWED BY THE INTERNATIONAL MONETARY FUND. THE MONETARY AGENCY WILL DETERMINE THE DAILY DOLLAR/RIYAL RATE ON THE BASIS OF THE DOLLAR/SDR RATE PROVIDED BY THE IMF. HOWEVER, THE DOLLAR/RIYAL RATE NEED NOT NECESSARILY CHANGE EVERY DAY. IT WILL CHANGE IN ACCORDANCE WITH SIGNIFICANT CHANGES IN THE SDR. RATES FOR OTHER CURRENCIES AS, IN THE PAST, CAN BE DETERMINED BY THEIR CROSS RATES WITH THE DOLLAR. THE MONETARY AGENCY'S BUYING AND SELLING RATES FOR THE DOLLAR APPLICABLE ONLY TO UNCLASSIFIED

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BANKS WOULD CONTINUE TO BEAR THE SAME RELATIONSHIP AS IN THE PAST TO THE DOLLAR RATE AS FIXED DAILY BY THE MONETARY AGENCY.

HIS MAJESTY'S GOVERNMENT HAS ADOPTED THE ABOVE PROCEDURE WITH THE OBJECTIVE OF STABILIZING THE VALUE OF THE RIYAL AND SHELTERING IT FROM UNDESIRABLE FLUCTUATIONS. THIS IS ONE OF THE MANY IMPORTANT STEPS TAKEN BY THE GOVERNMENT OF SAUDI ARABIA WITH THE OBJECTIVE OF PROMOTING THE WELFARE OF THE NATIONALS AND STABILITY OF THE ECONOMY OF OUR BELOVED COUNTRY.

THE FOREIGN EXCHANGE MARKET IN SAUDI ARABIA WHICH WAS CLOSED WITH EFFECT FROM THURSDAY, 13TH

MARCH, 1975 (1ST RABI 8, 1395) SHALL REOPEN WITH
EFFECT FROM SATURDAY, 15TH MARCH, 1975 (3RD
RABI I, 1395) AND THE DOLLAR/RIYAL RATE WOULD
BE RLS. 3.47 PER DOLLAR WHICH WOULD IMPLY AN
APPRECIATION OF ABOUT 2.3 PERCENT IN THE EXISTING RATE OF
THE \$ IN RLS.
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